APPENDIX 1

South Derbyshire District Council

Accounting Policies 2023/2024

Notes to the Financial Statements

(a) General Principles

The Statement of Accounts summarises the Council's transactions for the 2023/24 financial year and its position as at 31 March 2024. It has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2023/24 and the Service Reporting Code of Practice 2023/24, supported by the International Financial Reporting Standards (IFRS). The accounting convention adopted is historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

The Council's financial statements have been prepared on a going concern basis; the accounts have been prepared on the assumption that the functions of the Council will continue in operational existence for the foreseeable future. The provisions in the Code (Code of Practice on Local Authority Accounting in The United Kingdom 2023/24) in respect of going concern reporting requirements reflect the economic and statutory environment in which the Council operates. As a result of this, it would not therefore be appropriate for the financial statements to be produced on anything other than a going concern basis.

Reports are regularly taken to the Finance and Management Committee updating the current and forecasted position of the Council's financial position. The final outturn will be reported on 18 July 2024 for 2023/24 with the next full quarterly forecast for 2024/25 presented in August 2024.

The mitigating factor underpinning the going concern assessment is that the authority continues to have available General Fund balances above the current recommended minimum working balance.

At the end of 2023/24 it is budgeted to be £12.76m, which is £11.26 above the minimum level. Additionally, the Council's cash flow forecasts anticipate that cash balances will remain in a positive position for at least twelve months following publication of these financial statements and do not forecast a need to borrow. The Council has undertaken cash flow modelling through to March 2025 which demonstrates the Council's ability to work within its Capital Financing Requirement and cash management framework, with a minimum cash balance forecast during the period of £22m. Given this, the Council considers that the Statements can be prepared on a going concern basis.

The Statement of Accounts has been prepared in Sterling rounded to the nearest thousand.

The accounting policies are consistent with those applied in the year ended 31 March 2023, as amended to reflect the adoption of any new accounting standards as required by the Code of Practice on Local Authority Accounting in the United Kingdom 2023/24.

(b) Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- ➔ Revenue from the sales of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser, and it is probable that the economic benefits or services potential associated with the transaction will flow to the Council.
- ➔ Supplies are recorded as expenditure when they are consumed. Where there is a gap between the date supplies are received and their consumption, they are recognised as inventories on the Balance Sheet.
- ➔ Revenue from the provisions of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.

- ➔ Interest payable on borrowings and receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument, rather than the cash flows fixed or determined by the contract.
- ➔ Where the income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
- ➔ Expenses relating to the services received (including services provided by employees) are recorded as expenditure when the services are received rather than when the payments are made.
- ➔ The Council Tax and income included in the Income and Expenditure Statement is the Council's share of the Collection Fund's accrued income for the year. The NDR income included in the Income and Expenditure Statement is the Council's share of the Collection Fund's accrued income for the year from the Statutory Return following the close of the financial year. The difference between this value and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund adjustment account through the Movement in Reserves Statement.

Accounting for Council Tax

While the Council Tax income for the year credited to the Collection fund is the accrued income for the year, regulations determine when it should be released from the Collection Fund and transferred to the General Fund or paid from the Collection Fund to the major preceptors. The amount credited to the General Fund under statute is the Council's precept for the year, plus or minus the Council's actual share of the surplus / deficit on the Collection Fund for the previous year.

The cash collected by the Council from Council Tax payers belongs predominantly to all the major preceptors. The difference between the amounts collected on behalf of the other major preceptors and payments made to them is reflected as a debtor or creditor balance as appropriate.

Accounting for Non-Domestic Rates (NDR) – Business Rates

The NDR income for the year credited to the Collection Fund is the accrued income for the year. Regulations determine when it should be released from the Collection Fund and paid out to major preceptors (excluding the Police and Crime Commissioner for Derbyshire) and the Government. The amount credited to the General Fund under statute is the Council's estimated share of NDR for the year from the statutory return made to the Government at the commencement of the financial year.

The cash collected by the Council from NDR Tax payers belongs predominantly to all the major preceptors (excluding the Police and Crime Commissioner for Derbyshire) and the Government. The difference between the amounts collected on behalf of the other major preceptors and payments made to them is reflected as a debtor or creditor balance as appropriate.

(c) Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours.

Cash equivalents are investments that mature in a specified period of no more than 364 days, or less from the date of acquisition. They are readily convertible to known amounts of cash with insignificant risk of change in value. In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

(d) Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for in the current and future years, but do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

(e) Charges to Revenue for Non-Current Assets

Service revenue accounts, support services and trading accounts are debited with the following amounts to record the real cost of holding fixed assets during the year:

- ➔ Depreciation attributable to the assets used by the relevant service.
- ➔ Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the revaluations reserve against which the loss can be written off.

The Council is not required to raise Council Tax to cover depreciation, impairment losses or amortisations. However, it is required to make an annual provision from the revenue to contribute towards the reduction in its overall borrowing requirement (equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance). Depreciation, impairment losses and amortisations are replaced by the contribution in the General Fund of a Minimum Revenue Provision (MRP) by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

(f) Employee Benefits

Benefits Payable during Employment

Short Term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, annual leave, sick pay and car allowances. These are for current employees and are recognised as expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements, including annual leave, earned by employees but not taken before the year-end which employees can carry forward into the next financial year.

The accrual is made at the wage or salary rate applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to the Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination Benefits are amounts payable as a result of a decision by the Council to terminate employment of employees before the normal retirement date, or an employee's decision to accept voluntary redundancy. These are charged on an accruals basis to the relevant service line of the Comprehensive Income and Expenditure Statement, when the Council is clearly committed to the termination of employment.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the Pension Fund in the year, not the amount calculated according to accounting standards. In the Movement in Reserves Statement appropriations are required to and from the Pensions reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the Pension Fund and any such amounts payable but unpaid at the year-end.

Post-Employment Benefits

Employees of the Council are entitled to be members of the Local Government Pension Scheme, administered by Derbyshire County Council. This scheme provides defined benefits to members (retirement lump sums and pensions) earned as Council employees.

The Local Government Pension Scheme is accounted for as a funded defined benefit final salary scheme:

- The liabilities of the Derbyshire County Council Pension Scheme attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method. This means there is an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc. and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices using a discount rate based on the indicative rate on long-term redemption yields available on AA rated corporate bonds.
- The assets of the Derbyshire County Council Pension Fund attributable to the Council are included in the Balance Sheet at their fair value:
  - Quoted securities - mid market value.
  - Unquoted securities - professional estimate.
  - Unitised securities - average of the bid and offer rates.
  - Property - market value.

  The change in the net pension’s liability is analysed into the following components:

  Service cost comprising

  - Current service cost - the increase in liabilities as result of years of service earned this year, allocated in the Comprehensive Income and Expenditure Statement to the revenue accounts of services for which the employees worked.
  - Past service cost - the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier year, debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Finance and Management.
  - Net interest on the net defined benefit liability (asset) i.e. net interest expense for the Council – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Finance and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement; this is calculated by applying the discount rate used to measure the defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

  Re-measurement comprising

  - The return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions reserve as Other Comprehensive Income and Expenditure.
  - Actuarial gains and losses - changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions - charged to the Pensions reserve as Other Comprehensive Income and Expenditure.

  Contributions paid to the Derbyshire County Council Pensions Fund

The cash paid as employer's contributions to the pensions fund in the settlement of liabilities are not accounted for as an expense as statutory provisions require the General Fund and Housing Revenue Account Balances to be charged with the amount payable by the Council to the Pension Fund, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the Pension Fund and any amounts payable to the fund but unpaid at the year-end. The negative balance that arises on the pensions reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flow rather than as benefits earned by the employees.

Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any additional liabilities that arise as a result of a discretionary award to an employee are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

(g) Events after the Balance Sheet Date

Events after the Balance Sheet date are those events, both favourable and unfavourable that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of event can be identified:

➔ Those that provide evidence of conditions that existed at the end of the reporting period; the Statement of Accounts is adjusted to reflect such events.

➔ Those that are indicative of conditions that arose after the reporting period, the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

(h) Financial Instruments

Financial Liabilities

Financial Liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate for the instrument. For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principle. Interest charged to the Comprehensive Income and Expenditure Account is the amount payable for the year in the loan agreement.

Financial Assets

Financial assets are classified into three types:

- Loans and receivables - assets that have fixed or determinable payments but are not quoted on an active market.
- Fair value through other comprehensive income (FVOCI) – where cash flows are solely payments of principal and interest and the Council's business model is to both collect those cash flows and sell the instrument; and equity investments that the Council has elected into this category.
- Fair value through profit and loss – all other financial assets.

Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially valued at fair value, based upon prevailing benchmark market rates for new borrowing. They are subsequently measured and carried on the Balance Sheet at amortised cost. PWLB loan fair value estimates are based upon new borrowing (certainty rate) discount rates. Annual credits to the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Investments elected in to the FVOCI category are recognised when the Council becomes a party to the contractual provisions of a financial instrument and are initially valued at fair value in the Balance Sheet. Changes in fair value are balanced by an entry in the Financial Instrument Revaluation Reserve and the gain/loss is recognised in the surplus or deficit on Revaluation of Financial Instruments. Any gains/losses on de-recognition are taken directly to the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Financial Instrument Revaluation Reserve.

(i) Government Grants and Contributions (Revenue)

Whether paid on account, by instalments or in arrears, Government grants and third-party contributions and donations are recognised as due to the Council when there is reasonable assurances that the:

- ➔ Council will comply with the conditions attached to the payments; and
- ➔ Grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-specific Grant Income (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

(j) Investment Property

Investment properties are those that are solely used to earn rentals and/or capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset would be exchanged between knowledgeable parties at arm’s length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposals.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserve Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

(k) Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administration purposes and that are expected to be used in more than one financial year are classified as Property, Plant and Equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of, Property, Plant or Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Assets are valued into components where a component may be a significant proportion of the overall value of the asset. For example, asset values may be split between land, buildings and services. Where a component is replaced, the carrying amount of the old component is derecognised and the new component reflected in the carrying amount, subject to the recognition principles detailed above being met.

Measurement

Fair value is defined by IFRS 13 as 'the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date'. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

1. In the principal market for the asset or liability, or
2. In the absence of a principal market, in the most advantageous market for the asset or liability.

The Council uses external valuers to provide a valuation of its assets and liabilities in line with the highest and best use definition within the accounting standard. The highest and best use of the asset or liability being valued is considered from the perspective of a market participant.

IFRS13 seeks to increase consistency and comparability in fair value measurements and related disclosures through a 'fair value hierarchy'. Inputs to the valuation techniques in respect of the Council's fair value measurement of its assets and liabilities are categorised within the fair value hierarchy as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access as the measurement date.

Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 – unobservable input for the asset or liability.

The Council measures some of its assets and liabilities at fair value at the end of the reporting period. The Council is unable to capture the impact of adopting IFRS13 in isolation as many other factors, such as market conditions, will have had an impact upon the valuation in the end.

Assets are initially measured at cost, comprising:

➔ The purchase price

- ➔ Any cost attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Assets are then carried in the Balance Sheet using the following measurements bases:

- ➔ Vehicles, Plant and Equipment – depreciated historical cost.
- ➔ Land and Buildings - Fair value (the amount that would be paid for land and buildings in their existing use)
- ➔ Dwellings – fair value, determined using the basis of existing use value for social housing (EUV-SH).
- ➔ Assets under construction – carried at cost until in use and then carried at EUV-SH.
- ➔ Surplus assets – best use fair value, based on what would be paid for the asset on the open market.
- ➔ All other assets – fair value determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. (Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from reversals of a loss previously charged to a service.)

Where decreases in value are identified, they are accounted for by:

- ➔ Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains.)
- ➔ Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1st April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- Where there is a balance of revaluation gains of the asset in the Revaluation Reserve, the carrying amount of the asset is written down against the balance (up to the amount of the accumulated gains).
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain community assets) and assets that are not yet available for use (i.e. assets under construction). Depreciation is not charged on the year of acquisition or disposal.

Depreciation is calculated on the following bases:

- Dwellings and other buildings – Straight-line allocation over the useful life of the property as estimated by the Valuer (between 18 and 75 years).
- Vehicles, plant, furniture and equipment – Straight-line allocation over the useful life of the item, as advised by a suitably qualified officer usually between 5 and 7 years.
- Community Assets – Not depreciated as their life is non-determinable,
- Land, Surplus assets not held for sale (land) and assets under construction - Not depreciated
- Surplus assets not held for sale (property) - Straight-line depreciation over the useful life of the asset up to 45 years.
- Infrastructure Assets - Straight-line depreciation allocation over the useful life of the asset up to 20 years.

Where an item of Property, Plant and Equipment has major components whose cost is significant in relation to the total cost of the item (as determined by the VOA), the components are depreciated separately.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Disposals and Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell.

Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the surplus or deficit on provisions of services. Depreciation is not charged on Asset Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the value of the asset in the Balance Sheet is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on the disposal. Receipts from disposals are credited to the same line in the Comprehensive Income and Expenditure Statement in addition to part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve and then only can be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the Capital Financing Requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against Council Tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from General Fund balance in the Movement in Reserves Statement.

(l) Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential and a reliable estimate can be made of the amount of the obligation. For instance, the Council may be involved in a dispute that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation and are measured at the best estimate of the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision set-up in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year, where it becomes more likely than not that a transfer of economic benefits will not now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service revenue account.

Where some or all of the payment required to settle a provision is expected to be met by another party (e.g. from an insurance claim), this is only recognised as income in the relevant service revenue account if it is virtually certain that reimbursement will be received if the obligation is settled.

Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required, or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

Contingent Assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

(m) Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund and HRA Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the surplus or deficit on the provision of services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserve Statement so that there is no net charge against Council Tax for the expenditure incurred.

Certain reserves are kept to manage the accounting processes for Non-current assets, financial instruments, retirements and employee benefits. These do not represent usable resources for the Council. These reserves are explained in the relevant policies.

(n) Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of non-current assets has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts so there is no impact on the level of Council Tax.

(o) Value Added Tax (VAT)

VAT payable is included as an expense only to the extent that it is not receivable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

(p) Principal and Agent Transactions

In its capacity as a billing authority the Council acts as an agent when collecting Council Tax & Non-Domestic Rate income and also with the COVID-19 Business Grants distributed on behalf of the Government. Council Tax income is collected and distributed by the Council both on its own behalf and as an agent for Precepting Authorities. Non-Domestic Rate (NNDR) income is collected on behalf of the Council, the Government, Derbyshire Fire and Rescue Authority & Derbyshire County Council. Business Grant income was provided to the Council by the Government and is distributed based on strict rules imposed by the Government.

Where the Council is acting as an agent, transactions are not reflected in the financial statements, except where cash is collected, or expenditure is incurred on behalf of the other bodies. In this case a debtor or creditor will be raised. Council Tax & NNDR income is included in the Comprehensive Income & Expenditure Statement on an accruals basis

(q) Inventories and Long-Term Contracts

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The inventory is used in the delivery of Council services.

Work in progress on long-term contracts, where interim valuations are made, is included in the appropriate revenue accounts at historical cost covering the main cost elements (labour, materials, etc.)

(r) Leases

The Council accounts for leases as finance leases where the terms of the lease transfer substantially all the risks and rewards relating to the leased property to the Council. All other leases are classed as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification. Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The Council as lessee

Finance Leases

Where a lease is classified as a finance lease, then the substance of the transaction is considered to be the same as if the authority had purchased the asset and financed it through taking out a loan.

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the authority are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred. Lease payments are apportioned between:

- A charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- A finance charge (debited to the financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement).

Property, plant and equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the authority at the end of the lease period).

The CIPFA LAS AAC Local Authority Code Board defer the implementation of IFRS 16 Leases in the Code of practice on local Authority Accounts. In the UK (the code) until the 2024/25 financial year.

Operating Leases

If a lease meets the Code's definition of an operating lease, the property in question is not required to be recognised as an asset in the authority's Balance Sheet and the payments under the lease will be a charge to revenue.

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense to the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g., there is a rent-free period at the commencement of the lease).

The Council as lessor

Finance Lease

If the authority is the lessor in an operating lease, it will retain the property either as an item of property, plant and equipment or as an investment property on the Balance Sheet and credit rentals to income as they become payable, subject to any requirement to smooth the payments and/or the lease incentives.

Where the authority grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether property, plant and equipment or assets held for sale) is written off to the other operating expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the authority's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e., netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- A charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and
- Finance income (credited to the financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement).

Operating Leases

If the authority is the lessor in an operating lease, it will retain the property either as an item of property, plant and equipment or as an investment property on the Balance Sheet and credit rentals to income as they become payable, subject to any requirement to smooth the payments and/or the lease incentives.

Where the authority grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the other operating expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g., there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.